Personal Money Management

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Presentation Objectives

- Harvard University Credit Union Overview
- Plan to Meet Your Goals
- Understanding Credit and Credit Scoring
- Basic Personal Investing
- Contact Information
Program Central Themes

- Most people learn how to handle finances from their parents; but this is a problem because the world has changed since they were growing up.
  
  Elizabeth Warren – Harvard Law School Professor

- “There has been a devastating lack of attention, urgency and seriousness of taking on [financial literacy]”
  
  Arne Duncan - U.S. Secretary of Education – 4/20/2012
About the Credit Union

The Harvard University Employees Credit Union is a financial institution exclusively serving the students, alumni, faculty, and staff of Harvard University and the affiliated hospitals. Family members are also eligible.

- **Member Owned**
  - Every member is an equal shareholder
  - Volunteer Board of Directors elected by the membership

- **Safety and Stability**
  - Well capitalized
  - Federally insured by the National Credit Union Administration (NCUA)

- **Cooperative Model**
  - Member deposits used to fund loans for other members.
  - All earnings returned to the members in the form of better value and enhanced services.
Learning to Handle Money

- Harvard Student Survey
- Sources of consumer finance education
  - Parents – 38%
  - Friends – 12%
  - Formal Program – 6%
  - None – 47%

"For my whole life, I have relied on my parents to deal with almost all financial aspects of my life. I want to at least learn the basics and learn how to manage my finances intelligently now and in the future."

Source: Moneywise Survey - winter 2012 – 1,872 Harvard students
Consumer Finance Education

- Self rating of knowledge of consumer finance topics:
  - Personal Budgeting: 65% - poor to average
  - Personal Credit: 95% - poor to average (27% poor)
  - Taxes & Insurance: 97% - poor to average (42% poor)
  - Investing: 95% - poor to average (59% poor)

“I legitimately do not have a solid knowledge of the most basic elements of personal finance whatsoever. I basically know about charging a card and paying rent, and that's it.”
Financial Personality

● Critical to understand your financial values

● Values – fundamental beliefs about what you regard as important
  • Employment, family life, spiritual matters, personal health, education, public policy, credit use, money

● Values serve as the basis for budgeting and your financial goals
Spending Choices

- Consumer spending decisions are about 95% related to emotional needs.

  - Many factors impact consumer behavior
  - Understanding why we buy what we buy can help us make smart decisions in the future
Why Have a Spending Plan?

- Operating without a budget is like driving a car without a steering wheel…
- A plan to meet your goals
- Minimize anxiety of how to pay bills
Most people don’t plan to fail…they simply fail to plan
Life time savings goals

- Stage 1 – Save $1,000
- Stage 2 – Steal from Tomorrow debt
- Stage 3 – Build 6 month security fund to pay must haves
- Stage 4 – Lifetime of wealth
  - Save for retirement
  - Save for your other dreams
Spending Plan Breakdown

- Savings: 20%
- Wants: 30%
- Must-Have Needs: 50%
Barriers to meeting goals

- What challenges you the most in making progress toward your financial goals?
  - Impulse buying
  - Unplanned spending and use of credit cards
  - Poor spending habits
  - Loss of job
  - Financial emergencies
  - Not having a plan
Savings vs. Investing

- **Saving** – focus on short term goals
  - Very safe account (e.g. credit union savings account or Certificate of Deposit)
  - Easy access
  - Negligible risk to lose principal

- **Investing** – focus on longer term goals
  - Diminished or no guarantee of return of principal
  - Potential for higher earnings
Factors for Investing

- **Time** – the more time your money has to make new money the more likely you could make much more as a result

- **Rate of Return** – higher actual rate of return the more money you will make

- **Money** – How much to invest
Time: Magic of Compounding Interest

- “The most powerful force in the universe is compound interest”
  Albert Einstein

- “Money makes money for you”
Time is On Your Side

- Twin 1: From age 25 to 35 (10 years) save $100 per month then stop. ($12,000)

- Twin 2: From age 36 to 65 (30 years) save $100 per month ($36,000)

- Who will have more?
  - Twin 1: $174,928 will be saved – over $62,000 more than twin 2

**Assumes 8% annual return**
For illustrative purposes, data is based on $50 biweekly contributions at 8% compound annual return.
I never attempt to make money on the stock market. I buy on the assumption that they could close the market the next day and not reopen it for five years.

Warren Buffett
Financial Planning Pyramid

highest risk: highest earnings

- Penny Stock
- Speculative Stock / Bonds / Mutual Funds
- Growth Mutual Funds
- High-Grade Convertible Bonds
- High-Grade Municipal Bonds or Mutual Funds
- High-Grade Corporate Bonds or Mutual Funds
- Certificates of Deposit
- U.S. Savings Bonds
- Money Market Accounts or Mutual Funds
- Balanced Mutual Funds
- Blue-Chip Common Stock
- Real Estate
- Collectibles
- Commodities

lowest risk: lowest earnings

- Insured Savings / Checking Accounts
- Treasury Issues
- High-Grade Preferred Stock
- High-Grade Municipal Bonds or Mutual Funds
- High-Grade Corporate Bonds or Mutual Funds
- Certificates of Deposit
- U.S. Savings Bonds
- Money Market Accounts or Mutual Funds
- Balanced Mutual Funds
- Blue-Chip Common Stock
- Real Estate
- Collectibles
- Commodities
Investing Expenses

- Investors in a mutual fund pay the fund's expenses. These expenses reduce the value of an investor's account/return.

- All funds must compute an expense ratio using the same methodology, it allows investors to compare costs across funds.
Let the Data Speak for Itself

From 2004 to 2008:

- **28%** of actively managed funds outperformed the S&P 500
- **24%** of actively managed funds outperformed the S&P Midcap 400
- **14%** of actively managed small cap funds outperformed the S&P SmallCap 600

(For small-company investors, that’s a huge difference!)

These results are similar to the five-year cycle from 1999 to 2003, according to Standard & Poor’s Index Services.
“If there’s anything in the whole world of mutual funds that you can take to the bank, it’s that expense ratios help you make a better decision. In every single time period and data point tested, low-cost funds beat high-cost funds.”

Morningstar Research Director Russel Kinnel
Investment Concepts - Summary

5 Simple Steps:

- Create a budget

- Set your savings goals
  - How much $ do I want?

- Determine your time horizon & risk tolerance
  - When will I need the money?
  - How much “up & down” can I stomach?

- Determine appropriate asset allocation
  - What % in stocks, % in bonds, etc.

- Time is on your side – Start saving
Goals: Where do you want to be

- A realistic goal is $MART \ (in \ more \ ways \ than \ one)$
  - Specific
  - Measurable
  - Adjustable
  - Relevant
  - Time-related

- Be realistic
- Can it be done with current or proposed resources and expenses
Success to meeting goals

- What helps you make progress to meeting your goals?
  - Having a plan
  - Disciplined approach to meeting objectives
  - Seeing results/ progress
  - Having goals to aspire towards
Building A Budget

- Money IN
  - Determine your income
  - Identify other sources of money

- Money OUT
  - Estimate expenses by category
    - Savings
    - Housing
    - Food
    - Clothing
    - Utilities (e.g. phone, heat)
    - Transportation
    - Healthcare
    - Miscellaneous
    - Taxes
Impact of Big Decisions

- Which Apartment? Roommates, location, utilities, etc.
  - $2000/month x 12 months = $24,000/year
  - $1500/month x 12 months = $18,000/year
  - $6,000/year

- Transportation Choices
  - Walk or bike
  - Public transportation
  - Car – insurance, gas, maintenance, parking, tickets
  - Rental – hourly or daily
Must Have Needs

- **A place to live** (rent, renter’s insurance)
- **Utilities** (heat, electricity, basic phone)
- **Medical care** (health insurance, out-of-pocket prescription drugs)
- **Transportation** (e.g. subway pass, car payment, parking, gas, car insurance, maintenance)
- **Minimum payments on legal obligations** (e.g. student loans, minimum credit card pmt.)
- **Food – minimum amount for need** (USDA - $180 per month)
Property Insurance

Renters, Condo, and Homeowners

Protection of your possessions whether at home or not

Renters Insurance is a relatively low cost way to protect your personal belongings

If someone is injured during an accident at your home, insurance can help protect you in the event of a lawsuit

Be sure to catalog your belongings with a digital camera
Advertising 101

- On-line
- In the store and beyond

The purpose of advertising is to get us to buy
- Use emotional appeals and present certain images or lifestyles

You cannot avoid advertising, but you can separate emotional appeals from the true value of the product
Give yourself the 4th degree

Needs vs. Wants / Ask yourself the following.

1) Do I really need it?

2) Do I have to have it today?

3) What will happen if I don’t buy it now? (for better or worse)

4) Why have I gotten along without it until now?
Credit Card Caution

Credit Card  \( \text{kred’-et kard} \) n.:

A means for buying something you don’t need, at a price you can’t afford, with money you don’t have.
Credit Card Payment Behavior of Students

Payment Behavior

- 7% Make less than the minimum payment on some or all cards each month
- <1% My parent/spouse/other family member pays my credit card bill
- 38% Make more than the minimum payment but always carry a balance
- 17% Pay off all credit card balances each month
- 22% Make the minimum monthly payment on all cards every month
- 14% Pay off some cards in full each month but make only the minimum payment on others

Figure 10: Percentage of students who say their credit card payment behavior most typically resembles that described; source: self-reported survey

Sallie Mae (2009). “How Undergraduate Students Use Credit Cards”
Cost of Credit Card Minimum Payment

- Making only minimum monthly payment will take years to payoff balance
  (assuming no new borrowing)

- $2,000 balance
  - 18% interest rate
  - minimum payment
  - Over 30 years to payoff
  - $7,000 total paid

- Add $50/month to payment

$50 more per month
Reduces payoff time to Less than 3 years
Signs of Financial Distress

- When Your Credit Card Bill Arrives, You Can't Pay It In Full.
- Your Credit Card Usage Has Become a Necessity Rather Than a Convenience.
- Your Credit Card Debt Is Increasing, But You Only Pay the Minimum Payment Each Month.
Most people will spend more with credit than debit and more with debit than cash.
The Big Chill

- Creating your budget isn’t sufficient if you want to succeed financially. You must STICK to your budget!!

  - Try the “BIG CHILL” – see if you can follow a budget for just a weekend. On a Thursday night, try the following: Calculate what you can afford to spend for the weekend in cash

  - Withdraw that amount of money

- Put all your “plastic” – credit cards, ATM cards, debit cards – in a metal bowl, fill it with water and freeze
Budget Saving Tips

- Start with Goal –
  - $50/ month or less than $2/day
- Start with groceries, dining out, clothes, cosmetics, auto, household
- Groceries
  - Keep away from convenience stores
  - Shop with and stick to list
  - Eat before you go grocery shopping
  - Never buy non-food items at a grocery store
Personal Credit and Credit Scoring

What you don’t know can hurt you
Credit Basics

- Credit – Utilizing something now (e.g. education, car or home) and paying for it over a period of time.

- 3 C’s of Credit
  - Character – How well do you honor your financial obligations
  - Capacity – How easy will it be for you to repay the debt
  - Collateral – Will the loan be secured by something
What’s on the Credit Report?

- **Personal Information**
  - Names, current & previous addresses, employers, date of birth

- **Credit Information**
  - Credit granted and history & timeliness of repayment, revolving, installment or open ended, payment patterns for past 7 years

- **Public Record Information**
  - Records found on public documents: bankruptcies, collection accounts, overdue child support

- **Inquiries**
  - List of creditors and agencies who have requested your credit report
Who Reviews Your Credit?

- Employers
- Landlords
- Automotive dealers
- Professional licensing boards
- Insurance companies
- Financial lenders
- Others
Getting Your Credit Report

- [www.Annualcreditreport.com](http://www.Annualcreditreport.com)
  - Receive a free copy of report from each of 3 bureaus
    - order report every 4 months to monitor

- Must provide free if denied credit within 60 days

- Review for accuracy annually

- Dispute incorrect information

- MYFICO.COM
What Is Your Credit Score?

- Forecast of how well you will repay a loan as agreed during the next 24 months – the higher the score, the better the forecast that you will repay

- Snapshot of your credit history at a particular point in time

- Only includes factors related to an individual’s credit

- Always changing
Credit Score – FICO Ranges

- FICO Scores range – 300 to 850
- Only 18% of population have a FICO Score of 800 or better
- 7% of population have scores below 500
FICO® Scores - Designed to Rank Order Risk

» The FICO® score is a summary of the information on a consumer’s credit file.
» It is a 3-digit number ranging from 300-850.
» Higher scores equate to lower future risk of default.

620 640 660 680
FICO Credit Score Factors

1. Payment History 35%
2. Outstanding Debt 30%
3. Credit History Length 15%
4. Pursuit of New Credit 10%
5. Credit Mix 10%
Score Factors: Payment History

- Missed Payments
  - How recent is the most recent delinquency or public record item?
  - How severe was the worst delinquency— (30 days, 90 days, default)?
  - How many credit obligations have been delinquent?

How to Improve Credit Score
- Pay bills on time
- If you miss a payment, get current
- Ask for help with lender
Payment History

Example

<table>
<thead>
<tr>
<th>Months Since Most Recent Major Delinquency</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–11</td>
<td>High</td>
</tr>
<tr>
<td>12–23</td>
<td>Low</td>
</tr>
<tr>
<td>24–35</td>
<td>Low</td>
</tr>
<tr>
<td>36–47</td>
<td>Low</td>
</tr>
<tr>
<td>48–High</td>
<td>Low</td>
</tr>
<tr>
<td>No Delq</td>
<td>Low</td>
</tr>
</tbody>
</table>
Score Factors: Amount Owed

- What percentage of available credit card limits is the consumer using?
- How much does the consumer owe creditors?
- What percentage is outstanding on open installment loans?

How to Improve Your Score

- Keep balances low on credit cards
- Don’t open multiple credit cards
- Pay off debt rather than moving it around
Outstanding Debt

Example

Ratio of Total Balances to Total Limits on Revolving Accounts

High

Low

0-19%  20-39%  40-59%  60-79%  80-99%  100+%
Credit Impact: Slow Payments

One 60 day delinquency can decrease a credit score by...

- 50
- 75
- 100 points
## Credit Impact: Rates and Payments

<table>
<thead>
<tr>
<th>Credit Score</th>
<th>APR</th>
<th>Monthly Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>720-850</td>
<td>4.23%</td>
<td>$741</td>
</tr>
<tr>
<td>690-719</td>
<td>5.68%</td>
<td>$757</td>
</tr>
<tr>
<td>660-689</td>
<td>7.73%</td>
<td>$780</td>
</tr>
<tr>
<td>620-659</td>
<td>11.29%</td>
<td>$822</td>
</tr>
<tr>
<td>590-619</td>
<td>16.28%</td>
<td>$882</td>
</tr>
<tr>
<td>500-589</td>
<td>17.71%</td>
<td>$900</td>
</tr>
<tr>
<td>&lt;500</td>
<td>Not eligible</td>
<td></td>
</tr>
</tbody>
</table>

Source: Myfico.com – 36 month car loan - $25,000
Costs increase for all future borrowing

- Auto loan - $100 - $200 extra per month
- Mortgage costs – extra $200 to $300 per month per $100,000 borrowed
- Insurance costs, credit card costs, other borrowing - $100’s extra per month
BALANCE is a financial education and counseling service available as a benefit of the Harvard University Credit Union.

Money management counseling:
- Personal Budget Development
- Debt repayment options
- Credit report review
- 888-456-2227 - Harvard University CU Referral
Managing Finances Summary

- Tell a friend about the session
- Drive the car with a steering wheel
- Tread carefully when using credit
- Time is on your side for saving and investing
Thank You!

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